



ADVANCED PLANNING

Charitable Giving Guide

Contents

- Opportunities in the charitable marketplace 3**
- Marketing life insurance in the charitable arena 4
- Use life insurance to make charitable gifts..... 5**
- Communicating why life insurance works 6
- Save taxes with charitable gifts 6**
- Tax deductions for charitable giving 7
- Gifts of IRA assets 8
- Donating annuities 8
- Valuation of life insurance policies 8
- Warning: Tax traps..... 9
- Improve asset values with charitable trusts..... 10**
- Charitable remainder trusts 11
- Charitable remainder trust income tax consequences 12
- Benefits of using charitable remainder trusts 12
- Pooled income funds..... 13
- Charitable lead trusts 13
- Benefits of charitable lead trusts..... 14
- How a charitable lead trust works 14
- Avoid disgruntled heirs with
wealth replacement trusts 15**
- How a wealth replacement trust works 15
- Conclusion 16**

Opportunities in the charitable marketplace

Charitable giving in the United States is a very big business. Thousands of charities representing worthy and needy causes compete for funds every day.

The largest recipients of funds are religious organizations, followed by hospitals and health agencies, education, social service organizations, the arts and humanities, and civic and public affairs.

The role of life insurance

Life insurance can be vital to charities because it can generate large future donations that help provide financial security. Life insurance benefits can also transform a small donor into a large one. For a relatively small annual outlay now, donors can make future major contributions to their favorite charities.

The charitable sector is enormous in size and wide in scope. It impacts almost every area of our lives. Directly or indirectly, it affects everyone. The charitable marketplace exists because charities must attempt to balance their need for current cash income and their long-term need for substantial capital to finance growth and endow ongoing projects.

Charities, more than ever, are dependent on their donors because of state and federal funding cuts. Also, under current tax law, only those who itemize their deductions can deduct qualified charitable contributions from their federal income taxes due. Faced with a potential funding crisis, charities have been forced to find an alternative source of support. On the brighter side, a possible solution is available: life insurance.

The dollars these efforts develop for worthwhile religious, health, educational and other charitable purposes will improve the quality of life in your community. Can you think of a more rewarding way to spend your professional time?

Marketing life insurance in the charitable arena

Ask your current clients

Is there a charitable organization toward which they feel strongly? What is important to them? Their church, temple, alma mater, hospital, local symphony? The list of possibilities is long. This is the easiest way to break into the charitable marketplace. With clients who express a strong philanthropic interest, discuss the benefits of a gift of life insurance.

If a client is actively involved in charitable work, inquire about the charity's programs. This may lead to a discussion of the organization's finances. How successful is its fund raising? Does it have an endowment program, or does it depend solely on current cash contributions?

Keep in mind, too, that the potential tax benefits of charitable giving are sometimes enough to create a giver where none previously existed. In other words, a charitable contribution may generate enough tax savings to make the gift more than pay for itself. Consider this option when strategizing with an income tax sensitive client.

Use tax advisors as centers of influence

These individuals work with clients who have needs that your products can meet.

Approach charities directly

By doing so, you are effectively selling yourself as well as your product. Although charities are not ordinarily prospects for the direct purchase of life insurance, you are presenting the value of life insurance as a part of their overall fundraising efforts. Demonstrate to them the return they will see from a permanent policy, both for covering operating cash represented by cash value and the return of the death benefit.

Work with charity development directors

Almost all nonprofit organizations are preoccupied with current contributions. To offset this concern, the development director should be shown that a life insurance program will not replace current giving, but add to it. For example, when the charity owns a permanent, cash value life insurance policy, it can access accumulated cash values via properly structured loans or withdrawals to create a flow of cash for the charity.

Become personally involved with a charity

This enables you to gain firsthand knowledge of a charity's system for raising funds. This may be a useful tactic for developing a relationship with the development director and others in the charity – potentially earning their trust and respect. And, of course, the personal value you gain from volunteering is enormous.

Use life insurance to make charitable gifts

Life insurance with accumulated cash value can be an excellent asset for a charitable donation. As an outright gift, a life insurance policy may be donated in one of two ways:

A gift of a paid-up policy

Naming the charity as the owner and beneficiary of a paid-up policy provides the donor with a charitable deduction equal to the replacement value of the policy, but not more than the donor's cost basis.

Annual policy premium payments

A donation of a new or existing policy naming a charity as owner and beneficiary provides a deduction for any accumulated cash value, or cost basis if less, plus the annual premium payments the donor makes to keep the policy in force. Premium payments are made directly to the charity. A charity can choose to cash in the policy for its surrender value, continue to pay premiums, or convert it to a paidup policy at a lower face value should the donor fail to make subsequent premium payments.

Gaining their confidence

Obviously, development directors are not about to hand over the organization's major donor list of names to you upon request. You must first gain their confidence. Approach this as a long-term potential business contact that you are developing. If development directors feel that you merely are looking for the quick sale, they may be hesitant to provide you with a list of the charity's key donors. Further, they worry that life insurance programs come at the expense of current cash giving. In this regard, life insurance should not be marketed as an alternative to current giving, but to greatly amplify the current gift in the future. Your goal: Assure the development director of the value of life insurance as an ingredient in the charity's overall fundraising efforts. The appeal to the charity is that a gift of life insurance can help create or increase an endowment. Additionally, it multiplies the gift amount and enriches the charity's relationship with the donor.

Communicating why life insurance works

Life insurance is an excellent way to make a charitable contribution for the following reasons:

Sales idea

A charitable organization that prefers outright gifts of cash may welcome the idea of using life insurance if you show it a permanent, cash value life insurance policy. When a permanent policy is used, the policy can build cash value over the years, which is available to the organization to use during life of the insured. Upon the insured's death, the policy death benefit is paid to the charitable organization.

In making such a gift, donors can experience the joy of knowing that they have made a gift that will outlive them and that continues to support their chosen organization.

This is the ideal way to balance two needs: the charity's short-term need for cash and its long-term need for major gifts. The gift of life insurance enables your client to be both an annual giver and an endowment creator.

Death benefit coverage

The policy death benefit provides liquidity for the charity to help further the important work of the organization.

Amplified gift

Life insurance can be purchased on an installment plan. A relatively small annual cost (premium) will produce a much larger benefit (death proceeds). Assets earmarked for the donor's family can be kept intact without impairing or diluting control of a family business or other investments.

Self-completing

Life insurance can be a self-completing gift. The cash value grows from year-to-year as the donor lives. If the donor becomes disabled, the policy can remain in force through the optional Waiver of Premium Rider.

Prompt and hassle-free gift

The death proceeds are received promptly by the charity, free of income and estate taxes, probate and administrative costs and delays, and brokerage fees or other transfer costs.

Protects from attack by heirs

The contractual nature of a life insurance policy helps protect large gifts from attack by any potentially disgruntled heirs.

Avoids publicity if desired

A substantial gift can be made with minimal publicity, if desired, since life insurance is not part of the deceased's probate estate.

Save taxes with charitable gifts

A desire to help others is a strong motivating factor for charitable giving. Many people are further motivated by the tax advantages it offers. People who make charitable contributions do so for many reasons. Whatever the reasons, the tax laws are designed to encourage these gifts.

Many donors prefer to make outright gifts of cash or other valuable assets to their favorite charities. Others, although they would like to make an outright gift, depend on the income from the asset for their daily needs. Therefore, they decide to wait until the time of death to transfer the asset.

Through careful planning, donors can make a split-interest gift. This allows them to make a gift of the legal title to the charity now and still retain an income stream for life. These split-interest gifts are designed as charitable remainder trusts (for more on charitable remainder trusts, or CRTs, see page 10).

Premium payments in the charitable giving arena are considered gifts of cash and are therefore fully and currently deductible if the charity owns the policy outright. The donor should send a check directly to the charitable organization and have it pay the premium to AuguStar® for the donor to be eligible for the higher 60% deduction (see Limits on Charitable Deductions, page 8).

Merely naming a charity as a beneficiary of a policy will not produce an income tax deduction, since the owner of the policy would still have the power to surrender it or change the beneficiary designation.

Tax deductions for charitable giving

When talking about the availability of a tax deduction for charitable gifts, it is important to be clear about what type of tax you are discussing: gift, estate or income tax.

For a donation to qualify for a tax deduction, it must be made to a qualified charitable organization, or specifically, a 501(c)(3) organization. Generally, qualified charitable organizations include religious, scientific, literary, educational, governmental and veterans' organizations. The fact that an organization enjoys tax-exempt status does not necessarily mean that it qualifies as a charitable organization.

Be clear about what type of tax you are discussing:

Gift tax

Gifts to charitable organizations are not subject to gift tax on the donor, as would be the case with any other type of gift.

Estate tax

Charitable contributions made by will are fully deductible provided the property is included in the calculation of the donor's gross taxable estate.

Income tax

Taxpayers who itemize deductions are eligible for a tax deduction for their charitable gift when figuring their federal income taxes. Income tax deductions for charitable contributions are limited to a particular percentage of adjusted gross income (AGI). The percentage depends on:

- the type of charitable organization (public, semiprivate or private charity);
- the format of the gift (to the charity or for its use); and
- the nature of the gift (ordinary income, capital gain, appreciated property, etc.)

Factors in determining deductibility

The federal income tax deduction for a charitable contribution depends on four factors:

1. Type of charitable organization

Does the organization benefit the general public, or does it have a more limited or private purpose? The deduction will be limited if the organization doesn't benefit a public charity.

2. Type of asset given

Is the donated item cash, a capital asset with untaxed appreciation, tangible personal property, a life insurance policy, etc.? There may be limitations to the allowable deduction where the property is appreciated beyond the donor's basis or if the property has long-term capital gain.

3. Portion of the asset given

Is it a gift of the entire asset or only an interest in the asset, such as a remainder interest, which will pass to the charity sometime in the future? This will affect current deductibility.

4. When the "gift" is given

Is the gift being made now, or will it occur at some future date, as under the terms of a will or trust? This will affect current deductibility.

Limits on charitable deductions

- The overall limit on the charitable deduction that can be taken is 60% of AGI.
- The limit is reduced to 30% of AGI if the contribution is a gift of appreciated property that's made for the use of and not directly to the charity, or if the contribution of cash or ordinary income property is made to a semipublic or private charity.
- The deduction limit is 20% of AGI for contributions of long-term capital gain property to most private foundations.

The rules on charitable deduction limits are complex, and variations may apply in a particular case. Clients should be encouraged to consult a tax professional to discuss their individual situation.

Gifts of IRA assets

An IRA owner can treat a contribution of IRA assets to a qualified charity as a charitable contribution. A "qualified charitable distribution" (QCD) is an otherwise taxable distribution from an IRA (other than SEP or SIMPLE) owned by an individual who is age 70½ or older that is paid directly from the IRA to a qualified charity.

An IRA owner can exclude from gross income up to \$108,000 of a QCD made for a year. Any QCD can be used to satisfy any IRA required minimum distributions (RMDs) for the year. However, if an individual also makes deductible contributions to a traditional IRA after age 70½, special rules apply to limit and reduce QCDs. Clients should consult their tax professional for details as to how these rules apply in their particular case.

The amount of a QCD excluded from gross income is not taken into account in determining any deduction for charitable contributions. This means the IRA owner can avoid tax on the RMD by giving it directly to the nonprofit entity.

Donating annuities

There are several important tax considerations before making gifts of annuities to charity:

- If the donor acquired the annuity after April 21, 1987, a donation of the annuity will be treated as a sale or exchange, causing the donor to realize all investment gain as ordinary income.
- If the donor acquired the annuity on or before April 21, 1987, the federal income tax deduction for donating the annuity will be limited to the donor's basis in the annuity.
- If the donor will claim a federal income tax deduction of more than \$5000 for the gift, he or she will need a "qualified appraisal" of the value to support the deduction.

Valuation of life insurance policies

The value of the gifted life insurance policy determines the available amount of the income tax deduction. Generally, the income tax deduction is limited to the lesser of:

- the donor's cost basis (premiums paid less dividends received in cash and policy loans outstanding); or
- the policy's value.

The value of a life insurance policy is dependent on its replacement cost, which varies by the type of policy as follows:

Single-premium or paid-up policy

This is the single premium the same insurer would charge for a policy of the same amount at the insured's attained age. This amount would be increased by the value of dividend credits and reduced by the amount of any loans outstanding.

Premium-paying policy

For whole life policies, this is the policy's interpolated terminal reserve plus any unearned premium and accrued dividends, minus any indebtedness against the policy. For universal life policies, the interpolated terminal reserve is approximated closely by the contract value without regard to surrender charges.

Newly issued policy

The gross premiums paid would measure the value of the policy.

Term policy

The amount of the unearned premium would measure the value of the policy.

If the insured is terminally ill, the policy's value may be closer to the death benefit. In any case, the client should work with his or her tax advisor.

Warning: Tax traps

Gifts of an existing insurance policy to charity could involve some tax traps:

- If there's a loan on the policy, the donation is treated as a bargain sale for an amount equal to the loan (causing ordinary income recognition for the amount of the loan).
- A contribution to charity can't cause the donor to realize ordinary income. If the value of the policy exceeds basis, the donor can only deduct basis.
- If the gift is greater than \$5,000, you must get a qualified appraisal of the value of the donated item. The qualified appraiser can't be the donor or the deduction will not be allowed.

Gifts of life insurance policies with outstanding loans can create adverse income tax consequences for the donor. A taxable event can result from a transaction that appears to be a gift if there is a gain in the policy. With what is known as the bargain sale rule, a special calculation is required. (See example in sidebar.)

If the policy transferred has an outstanding loan on it, the client is considered to have received consideration in an amount equal to the debt. Thus, a donor who contributes the policy to a charitable organization has entered into a bargain sale even though no cash is received.

Bargain sale rule example

Assume your client gives to charity a life insurance policy that has an outstanding loan. The policy has a gross cash value of \$25,000; its tax basis is \$15,000. Additionally, there is a \$10,000 loan.

Under the bargain sale rule, the client is considered to have received consideration of \$10,000, the amount of the outstanding loan. The allowable contribution deduction is \$9,000, the lesser of the cost basis or the surrender value of the contract allocated to the gift element. In determining gain on the transaction, the client must allocate \$9,000 of the tax basis to the gift element of the transaction (15/25ths of \$15,000). The remaining basis of \$6,000 (10/25ths of \$15,000) is used against the "sales" proceeds of \$10,000, producing a taxable gain of \$4,000 on the transaction.

Improve asset values with charitable trusts

Sales idea

Establishing a charitable remainder trust (CRT) not only helps a worthy cause, but also produces an income tax deduction and lets your client avoid capital gains tax. This not only increases the client's cash flow, but also may increase the amount passing to heirs.

A donor will receive an immediate tax deduction for the ultimate value of a gift to charity. In addition, a donor can avoid paying capital gains income tax on gifts of appreciated securities or real estate. Any income payments from the CRT will be taxed as a combination of ordinary and tax-free income.

A charitable contribution that consists of less than the donor's entire interest in the property generally does not qualify for a deduction, unless it is a gift of an undivided portion of the donor's entire interest, or follows the requirements for one of several specific types of trusts.

These recognized exceptions to the general rule include:

Charitable remainder trusts

- a. annuity trusts
- b. unitrusts
- c. pooled income funds

Charitable lead trusts

Charitable giving, through the use of a trust, provides those who own marginal-income producing assets to improve their return on these assets. Many types of assets that your clients own may not produce any income, or at best, may produce only a marginal rate of return. For instance, collectibles, antiques and land may have high fair market value, but provide little or no cash flow.

Your clients have four options with these types of assets:

Keep the asset.

Many of your clients probably have not given any thought to their options and, by default, plan to hold the asset indefinitely. Little or no thought may be given to the fact that their children may be forced to sell the asset to pay estate taxes that this asset helped to generate.

Sell the asset.

Your clients may consider selling assets that have no sentimental value if they could get a good price, thinking that they could reinvest the proceeds at a higher rate of return. While the asset would no longer be in the estate at death, a portion of the asset's value will be lost and any remaining proceeds from the sale would inflate the estate's value. Income tax due on any capital gain resulting from the sale of the asset will shrink the cash value available to your clients.

Give the asset to charity.

If your clients are interested in increasing their cash flow and don't care if the asset remains in the family, then they should consider giving the asset to a charitable organization.

If the asset has been held for more than one year and has appreciated in value, the donor may be able to avoid tax on that gain.

- Contribute to charity for a fair market value deduction (subject to charitable and itemized deduction limitations). Use retained cash not donated to purchase life insurance.
- Charitable deductions offset the cost of the policy.
- Avoid capital gains on the appreciation of the security.

Charitable remainder trusts

A charitable remainder trust is an agreement between a donor and a charity that places a portion of a donor's assets in trust for either a term of years or for the rest of the donor's life. During the trust term, the donor (and/or another beneficiary) will receive regular income payments; when the term ends, the assets will pass to the charity.

A charitable remainder trust can be established during the donor's life or by will. The assets most commonly donated to a charitable remainder trust are appreciated securities and/or real estate.

The type of remainder trust is distinguished by the form of payment chosen: either a fixed annual dollar amount (charitable remainder annuity trust) or a fixed percentage of the trust assets revalued annually (charitable remainder unitrust).

A charitable remainder annuity trust is an irrevocable trust that pays a fixed dollar amount, based on actuarial tables, each year to a beneficiary, such as the donor of the trust assets, his or her spouse, child, etc. After the death of the income beneficiaries or at the end of a set number of years (maximum 20 years), whatever assets remain in the trust are distributed to the named charities. If additional contributions are desired in later years, a new trust must be established.

A charitable remainder unitrust is an irrevocable trust that pays a fixed percentage of the value of its holdings, based on actuarial tables, each year* to a beneficiary (i.e., donor, spouse, child). A unitrust may be drafted to pay out less than the established percentage, if the trust income earned during the year is less than the required payout percentage. This shortage can be made up for in later years, if desired.

After the death of the income beneficiaries or at the end of a set number of years (maximum 20 years), whatever assets remain in the trust are distributed to the named charities. Additional contributions can be made to the trust in later years, if desired.

Annuity trust or unitrust?

An annuity trust pays the same dollar amount to the beneficiary each year. The payment is not tied to the investment performance of the trust assets. Whereas a unitrust pays a fixed percentage of the value of the trust assets based on a revaluation of the assets each year.

This means that if the unitrust earns more than the percentage it pays out, the amount in the trust will increase. This in turn will result in larger payouts in subsequent years. If the trust earns less than the payout, the return from the unitrust will decrease in future years. In contrast, the return from the annuity trust will remain constant. A lower payout percentage for a unitrust is designed to pay a higher return in later years by retaining more principal and interest annually to fuel compounded growth in its annual calculations. Unitrusts are more common than annuity trusts because of the potential built into the income payouts and the flexibility of being able to contribute additional assets to the trust in the future, if desired.

Advantages

- Income from trust
- Can increase donor's income
- Charitable income tax deduction
- Can avoid tax on appreciated property
- Relief from investment management

Disadvantages

- Payments fixed (annuity trust)
- Payments vary (unitrust)
- Gift is irrevocable

*Assets must be revalued each year to determine the payout amount.

Charitable remainder trust income tax consequences

Charitable remainder trust gift and estate tax consequences

If the income from the trust is payable to someone other than the donor (and/or the spouse), it may be subject to federal gift tax. The \$19,000 (indexed for inflation) annual gift tax exclusion per beneficiary per year is available to offset this gift tax exposure as well as the lifetime exclusion amount available for use.

The value of the interest ultimately passing to the charity at the time of death is fully deductible from the gross estate. If there are income beneficiaries other than the donor (and/or spouse), the value of the income interest may be included in the donor's gross estate value and could, therefore, be subject to estate tax.

The charitable income tax deduction is based on the current value of the charity's right to receive the trust assets at some time in the future. This is called a remainder interest. Several factors determine this value:

- Estimated length of time for which the charity must wait (for example, a term of years or for the donor's lifetime).
- Applicable federal midterm rate, which is announced monthly.
- Percentage rate payable to the income beneficiaries each year and frequency of payment, e.g., annually, monthly, etc. Obviously, the higher the rate of payout, the less there will be for the charity, and the smaller the charitable deduction will be.

The payout rate selected will affect the charitable income tax deduction allowed. The IRS will disallow the deduction if there is more than a 5% probability that the interest of a non-charitable beneficiary will outlast (exhaust) the fund before the charity receives its share.

To determine the amount of charitable deduction for making a gift to a charitable remainder trust, the following information will need to be collected:

- fair market value of asset given to the charity;
- rate of annuity desired;
- age of grantor(s); and
- type of charitable remainder trust: annuity trust or unitrust.

Benefits of using charitable remainder trusts

A taxpayer can contribute an asset (usually highly appreciated and low-income producing) to an annuity trust and receive a current income tax deduction. The annuity trust can sell the asset without paying any capital gains tax and can then reinvest the entire proceeds at a higher rate of return. The trust normally will pay out a higher return than the donor previously received.

This income, coupled with the income tax deduction, can create a substantial increase in cash flow. The only ones to lose are the donor's heirs. To solve this problem, many taxpayers use a portion of the increased cash flow to purchase a life insurance policy (held outside their estate) to replace all or part of the asset value placed in the trust so the heirs don't suffer any diminution in value of their prospective share of the estate. This trust is commonly referred to as a wealth replacement trust (for more on wealth replacement trusts, see page 15).

The main features of a wealth replacement trust combined with a charitable remainder trust are:

Party	Benefit
Donor (and/or spouse)	Receives increased cash flow during retirement years.
Children/heirs	Receive same size or larger inheritance with life insurance.
Charity	Receives remaining assets after donor's death.
IRS	Receives less income tax and less estate tax.

Pooled income funds

A pooled income fund is like a mutual fund maintained by a qualified charity. It combines the assets of many people to maximize their investment power.

Regular taxable income is paid at least annually to those who have contributed to it, or to other beneficiaries they have named. Income payments depend upon the fund's return and the participant's pro rata share in it.

Unlike assets invested in a mutual fund, those placed in a pooled income fund are irrevocable and ultimately belong to the charity. The most common assets donated to a pooled income fund are cash, appreciated securities and the cash surrender value of a life insurance policy. Less liquid assets are discouraged because they take time to convert into income-producing form, placing a temporary income drain in the fund and, therefore, on its income recipients.

The initial charitable income tax deduction received by the donor is based on the value of the ultimate gift to a charity. The regular payments received by the donor and/or other beneficiaries are taxed as ordinary income.

Charitable lead trusts

A charitable lead trust is an agreement among the donor, the charity and a trustee (the charity can also serve as the trustee) that places a portion of the donor's assets in trust. During the trust term, the charity receives regular income payments. When the term has ended, the assets pass to the donor's designated beneficiaries. It's like a charitable remainder trust in reverse.

Advantages and disadvantages of pooled income funds

Advantages

- Receives income for life
- Charitable income tax deduction
- Greater return on assets that had a low yield
- Avoid tax on appreciated securities contributed
- Relief from investment management
- Additional gifts easy to make

Disadvantages

- Gift is irrevocable
- Named beneficiaries cannot be changed

Annual income to a charity must be made as either a fixed percentage of the fair market value of the assets as revalued each year (charitable lead unitrust payment) or a fixed dollar amount (charitable lead annuity trust payment). The method of payment, length of the trust term, type of management, and ultimate beneficiaries are all designated by the donor when the trust is established and cannot be changed. This trust can be established during the donor's life or by will. The assets most commonly used to fund charitable lead trusts are cash, securities and real estate — assets that, well invested, will earn a good return. Any income earned above and beyond what has been designated for the charity is added to the trust principal, increasing the ultimate gift to the designated beneficiaries.

Advantages and disadvantages of charitable lead trusts

Advantages

- Regular income from trust (annuity trust)
- May generate a current income tax deduction
- Removes assets from estate
- Lowers gift tax on donor in passing of assets to heirs
- Appreciation of trust principal is free of gift and estate tax
- Provides the charity with long-term income

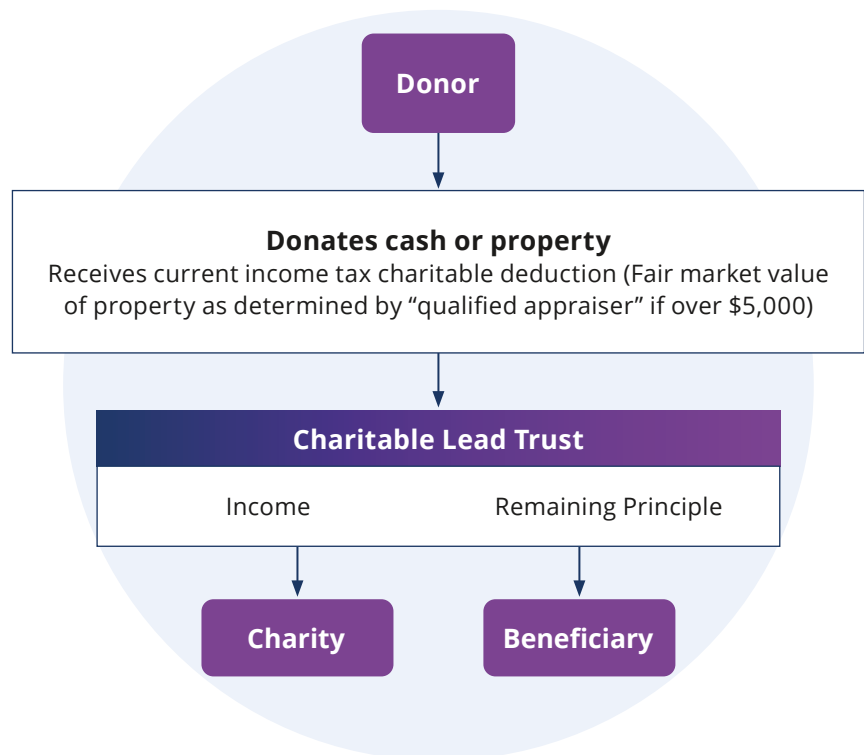
Disadvantages

- Payments fixed (annuity trust)
- Lose assets' liquidity
- Lose assets' income
- Gift is irrevocable

Benefits of charitable lead trusts

Some types of charitable lead trusts will generate a current income tax deduction equal to the present value of the income stream going to the charity. A significant attraction that a lead trust offers is the long-term protection it provides for the donor's assets. A trust can be constructed that will substantially reduce or eliminate the estate tax that would eventually be due on the transfer of those assets to the donor's heirs. In addition, any appreciation to the value of the principal that accrues after the trust has been established passes to the beneficiaries free of additional gift and estate taxes.

How a charitable lead trust works



Avoid disgruntled heirs with wealth replacement trusts

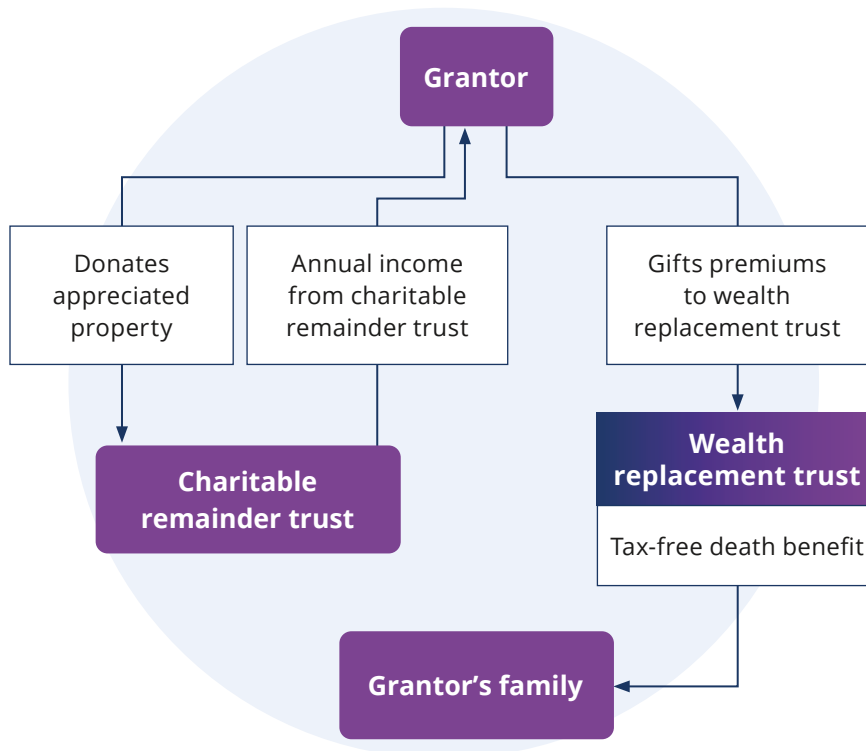
If your client has donated a specific asset to a charitable organization, the income tax savings from the gift can be used to buy insurance on the donor (and/or spouse) to replace for the family the value of the property given away.

If the clients have a taxable estate, they might consider owning the insurance outside of the estate, typically in an irrevocable life insurance trust.

The life insurance proceeds can replace the anticipated inheritance or wealth that your clients give to the charity. As such, the heirs do not inherit less because of the charitable gift, preventing a major family objection to charitable giving. The children instead receive a cash inheritance.

A wealth replacement trust involves a contribution of appreciated property to a charitable remainder trust and then the ultimate replacement of the property's value through life insurance proceeds.

How a wealth replacement trust works



These are the basics of the wealth replacement concept:

1. An individual has substantial appreciated property currently earning a low yield. There is an overriding concern to ultimately pass the property value to the children.
2. The individual contributes the property to a charitable remainder trust. The asset is sold and the proceeds reinvested in higher-yield assets.
3. A wealth replacement trust, with the children as beneficiaries, purchases a life insurance policy on the individual's (and/or spouse's) life with a face amount equal to the value of the property transferred to the charitable remainder trust.
4. How tax savings from the charitable gift (both deductibility and avoidance of taxation on built-in capital gain amounts), combined with the increase in after-tax income, are used by the individual to make gifts to the wealth replacement trust for its use in making premium payments.
5. Upon the death of the individual (and/or spouse), the life insurance proceeds pass to the children free of estate tax.

Conclusion

Charitable giving is an obvious outlet for those who just want to give.

However, as you can see, if a client has any interest in a charity, they might be able to make unproductive or troublesome assets perform better and get a charitable deduction. And even though they may be donating a high-value asset, the client's heirs can still be taken care of by way of life insurance as a wealth replacement tool. Remember, the next client who inquires about tax savings, ask them what their feelings are about charitable giving.



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